2005 Indiana School Construction Annual Report

Indiana Department of Local Government Finance

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Executive Summary

Indiana schools received more than half of all property tax revenues collected in the state in 2005. On average 54 cents of every property tax dollar collected in Indiana went to schools, and nearly 11 cents of every property tax dollar paid for school construction debt. Payments on construction debt consumed more than \$777 million in property tax revenue in 2005.

New cost thresholds enacted in 2005 by Governor Mitch Daniels to control school construction spending did provide Hoosier taxpayers relief. Within two weeks of his inauguration, the Governor placed a 120-day moratorium on school construction and instructed the Indiana Department of Local Government Finance to establish written guidance on school construction in hopes of curbing the growth in property taxes associated with large, expensive school construction projects. As part of the guidance, the Department developed cost per square foot thresholds to use as benchmarks in reviewing school construction projects. Application of these thresholds and increased scrutiny of projects as ordered under the Governor's guidance saved Indiana taxpayers an estimated \$90 million – \$18.25 million in principal and \$71.1 million in interest. These savings are the result of Department requested modifications to school construction projects.

The Department approved nearly \$500 million in school construction prior to the Governor's moratorium and application of the new thresholds. Following the release of the Governor's guidance in May, the Department began an aggressive campaign to work with schools, their advisors and industry leaders to help reduce the cost of school construction in Indiana. Several on-site facility visits, meetings with school officials, presentations at school conferences and a host of meetings with school construction and financing experts resulted in the aforementioned \$ 90 million savings. In total, the Department approved \$1.3 billion in school construction in 2005.

Although the new standards have made significant progress in increasing the review and scrutiny of school construction projects, much work lies ahead for state and school officials. The cost for new school construction in Indiana was 40.4 percent higher than the national average in 2005, and new Indiana schools were 39.3 percent larger than the national average – although both the average project size and average cost declined slightly compared to 2004.

This report compares the costs and sizes of Indiana school building projects in 2004 and 2005 to national school averages and examines the statewide impact of school construction debt on taxpayers.

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School construction in Indiana is a decentralized process. Locally, school officials decide a new school facility or renovation is required. The school board develops a concept, and architects and engineers create a design. Once the school board approves the design, taxpayers have an opportunity to object to the construction. Once approved locally, the school and its legal and financial advisors present the design and its projected cost to the School Property Tax Control Board in Indianapolis. The Board – an independent board of school and construction professionals appointed by the Governor and members of the General Assembly - reviews the presentation and documentation and makes a recommendation to approve, disapprove or modify the project to the Commissioner of the Indiana Department of Local Government Finance.

The Department is responsible for calculating tax rates based on the budgets of local government. To ensure school construction and its associated debt do not drive tax rates too high, the Department reviews projects for a host of factors that go beyond the bricks and mortar of the proposed construction. Project reviews examine, among other things, the amount of non-traditional classroom space in the project, the degree of community support, the district's graduation rate, standardized test scores, and the steps the district has taken to reduce costs. The goal is to approve the most economically feasible project that provides for the educational needs of the community.

Within two weeks of his inauguration in 2005, Governor Mitch Daniels placed a 120-day moratorium on school construction and instructed the Indiana Department of Local Government Finance to establish written guidance on school construction in hopes of curbing the growth in property taxes associated with large, expensive school construction projects. Using data from McGraw-Hill-F.W. Dodge Analytics, the Department created annually adjusted thresholds to reflect national average construction costs to use as benchmarks in reviewing school construction projects. The 2005 thresholds are located in Figure 1 on Page 5. Construction and renovation projects exceeding the cost thresholds did not face automatic disapproval. Rather, these projects underwent increased scrutiny, and school officials were required to provide additional evidence to ensure the proposed project increased or enhanced the educational programs offered by the school.

Figure 1 – 2005 School Construction Cost Per Square Foot Thresholds

School Type	New Facilities	Additions to Facilities
Elementary	\$131	\$182
Middle/Intermediate	\$131	\$191
High School	\$141	\$193

Source: F.W. Dodge Analytics & DLGF Information

Findings

New School Construction & Additions

The Department approved \$1.3 billion in school construction in 2005 - nearly \$500 million prior to the application of the thresholds in Figure 1. The 2005 total represented a \$682 million growth in school construction from the 2004 total of \$618 million. As shown in Figure 8, while the total number of requested projects declined in 2005 compared to 2004, the size and scope of the requested projects were significantly greater – resulting in the substantial increase in the total amount requested. The Department approved seven projects in 2005 that exceeded the thresholds in Figure

1. The average time for the Department to review projects was 83 days in 2005.

Hoosier taxpayers paid \$162 million more than the national average to construct new K-12 school buildings in 2005. New school construction projects cost 0.75 percent more per square foot than the national average and 1.6 percent more than similar projects in the state in 2004. (See Figure 2 on Page 6) The average size of new schools built in Indiana in 2005 was 39.3 percent larger than the national average, but 5.7 percent smaller than schools built in the state in 2004. (See Figure 4 on Page 7) The average construction cost per project was 40.4 percent higher than the national average, but \$0.6 million less than projects in 2004. (See Figure 5 on Page 7)

Indiana taxpayers paid \$90 million more than the national average to add on to K-12 school buildings in 2005. The cost per square foot for additions to K-12 schools was 36.4 percent higher than the national average in 2005 and 4 percent greater than similar projects in 2004. (See Figure 2) Additions to Indiana schools were 3.4 percent larger than the national average and 35 percent smaller than additions in 2004. (See Figure 3) The average cost to add on to schools was 31.8 percent higher than the national average and 32 percent less than 2004 projects. (See Figure 4)

Figure 2 – 2005 Cost per Square Foot Comparison

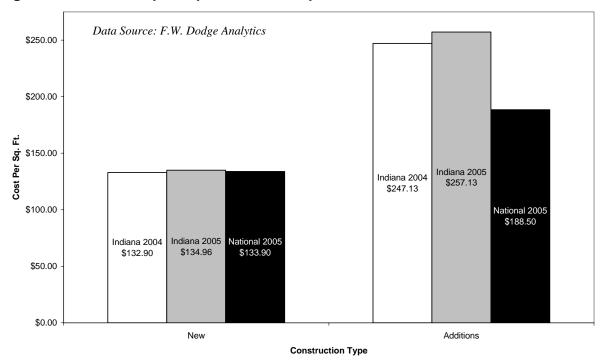


Figure 3 2005 School Construction Cost Per Sq. Ft. Comparison

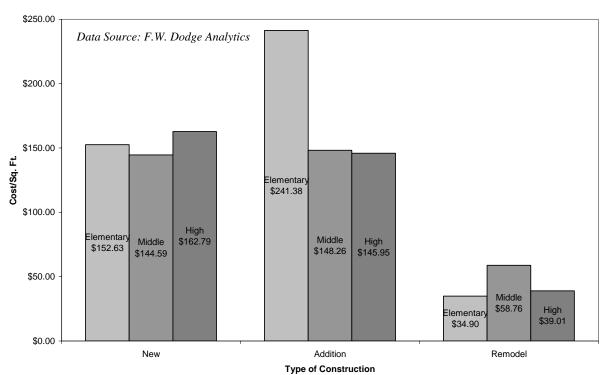


Figure 4 – 2005 Average Project Size Comparison

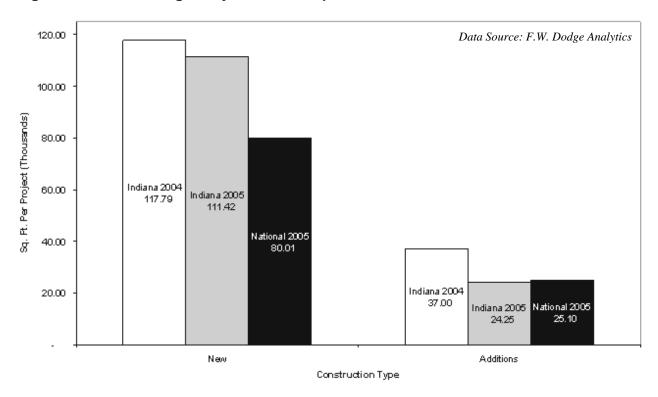
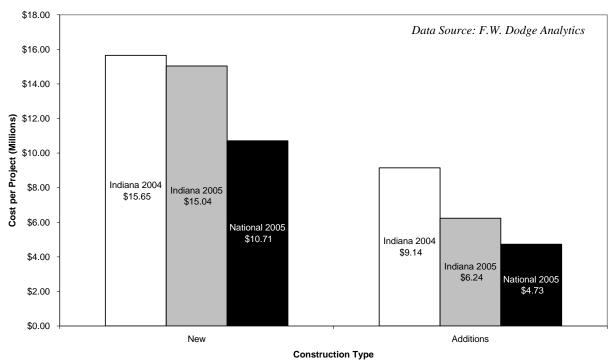


Figure 5 – 2005 Average Cost Comparison



Effect of Construction Debt

Indiana schools received more than half of all property tax revenues collected in 2005. On average 54 cents of every property tax dollar collected in Indiana went to schools, and nearly 11 cents of every property tax dollar paid for school construction debt. Payments on construction debt consumed more than \$777 million in property tax revenue in 2005. (See Figure 6 below) School construction debt consumes more property tax revenue than all libraries and townships combined. In Indiana, the median amount of school building debt service per student is \$698.44 based on Indiana school population statistics.

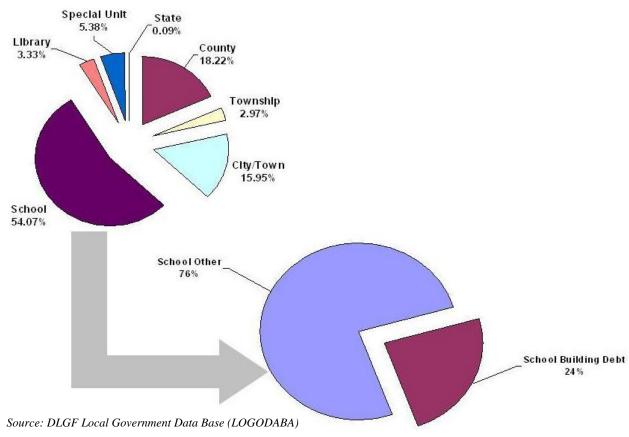


Figure 6 – 2005 Average Property Tax Distribution & School Spending

School Construction Analysis

Schools spent nearly 20 percent of construction funds on architect fees, financing costs, advisor fees, and other "soft costs" in 2004 and 2005. (See Figure 7 on Page 9) The Department will continue to track spending on school construction projects funds to monitor the cost distribution between actual construction of the improvement and "soft costs."

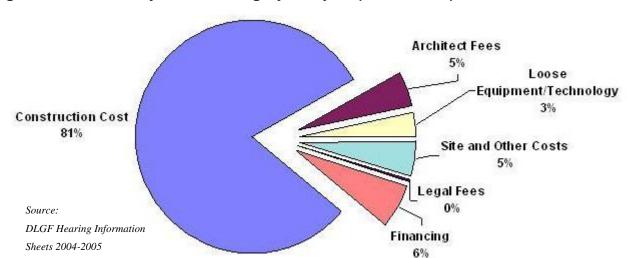


Figure 7 – School Project Cost Category Analysis (2004 & 2005)

Construction of new school buildings in Indiana accounted for more than half of the total school construction spending in 2005, despite being less than 20 percent of the total projects for the year. (See Figure 8) Renovations to existing schools accounted for more than half of the total projects in 2005; however, these projects accounted for less than one third of the total school construction expenditures for the year. Total spending on addition projects was the lowest category of the three. (See Figure 8)

Figure 8
Requested Indiana School Construction Projects By Construction Category*

	2004 20 Requested Requ			of jects	Total Requested	% of Spending
	Requesteu	Requested	2004	2005	Requesteu	Spending
New Schools	\$ 283,478,891	\$ 521,892,742	12	21	\$ 805,371,633	48.82%
Additions	\$ 164,704,011	\$ 171,768,550	38	28	\$ 336,472,561	20.40%
Renovations	\$ 170,700,596	\$ 337,169,137	69	59	\$ 507,869,733	30.79%
Total	\$ 618,883,498	\$1,030,830,429	119	108	\$ 1,649,713,927	

Source: DLGF Hearing Information Sheets 2005

Elementary schools accounted for a quarter of the total expenditures in 2005 and more than 40 percent of the total number of requested projects. (See Figure 9 on Page 10) Additions to existing schools have the highest cost per square foot averages, followed by new school buildings. The cost per square foot varies greatly between the type of school and the type of construction activity. (See Figures 9 & 10 on Page 10)

^{*}Excludes legal and financing costs of bond issuance and projects consisting of a combination of additions and renovations. Source: DLGF Hearing Information Sheets 2004-2005

Figure 9
Requested Indiana School Construction Projects by School Type & Construction*

	New Schools Additions		Renovations	# of Projects		Total	% of
	New Schools	Additions	Kenovations	04	05	Requested	Spending
Elem.	\$365,097,123	\$141,039,942	\$129,782,150	77	48	\$635,919,215	38.54%
Middle	\$189,413,552	\$52,213,514	\$182,303,651	11	33	\$423,930,717	25.70%
High	\$250,860,958	\$143,219,105	\$195,783,932	31	27	\$589,863,995	35.76%
Total	\$805,371,633	\$336,472,561	\$507,869,733	119	108	\$1,649,713,927	

^{*}Excludes legal and financing costs of bond issuance and projects consisting of a combination of additions and renovations. Source: DLGF Hearing Information Sheets 2004-2005

Figure 10
School Construction Cost Per Sq. Ft. By School Type & Construction Category

		Total	Total	Construction	
	Total Sq.	Construction	Project	Cost per	Project Cost
	Ft.	Cost	Cost	Sq. Ft.	per Sq. Ft.
New Elementary	2,068,449	315,707,725	365,097,123	152.63	176.51
New Middle	1,102,094	159,348,083	189,413,552	144.59	171.87
New High	1,308,001	212,933,011	250,860,958	162.79	191.79
Add. Elementary	490,657	118,433,240	141,039,942	241.38	287.45
Add. Middle	309,408	45,883,651	52,213,514	148.26	168.71
Add. High	875,025	127,706,564	143,219,105	145.95	163.67
Remodel Elementary	3,390,783	118,336,048	129,782,150	34.90	38.27
Remodel Middle	3,102,624	160,077,900	182,303,651	51.59	58.76
Remodel High	5,018,353	176,352,545	195,783,932	35.14	39.01

Source: DLGF Hearing Information Sheets 2005

Conclusion

The cost and size of school construction projects in Indiana exceeded national averages in nearly every category in 2005. The increased costs associated with the overages require Indiana schools to assume additional debt, and ultimately require Indiana taxpayers to pay more property taxes to cover the payments on the debt. Construction debt consumed more than \$777 million in property tax revenue in 2005 driving the median debt service to nearly \$700 per student.

While school construction projects and the associated community expectations vary greatly

across the state, the data reveals a continued need for scrutiny of school construction projects in Indiana. The introduction of cost per square foot thresholds in 2005 was a step forward in improving the review process of school construction projects. Cost per project decreased in most school construction categories in 2005, but the price tag and size of Indiana projects continues to be greater than similar projects across the nation. State and local school officials must continue to improve the planning and review of school construction projects to ensure the property taxes Hoosiers pay are spent wisely for the maximum benefit of students in the classroom.

The Department will continue to apply cost per square foot thresholds to school construction projects in 2006. Figure 11 below details the 2006 thresholds. These thresholds reflect the national average construction cost per square foot for new facilities and additions to existing elementary, middle and high schools with an additional 10 percent allowance for contingencies. These annually adjusted thresholds do not include financing costs, land, building and equipment acquisitions, and professional fees.

Figure 11 – 2006 School Construction Cost Per Square Foot Thresholds

School Type	New Facilities	Additions to Facilities
Elementary	\$140	\$185
Middle/Intermediate	\$146	\$216
High School	\$157	\$223

Source: F.W. Dodge Analytics & DLGF Information

The Department is working with state and national leaders to learn from the successes other states have logged in controlling school construction costs. The possibility of harnessing new construction methodologies to reduce costs, varying review parameters to include quality standards and leveraging the potential savings in standardized school designs are among the current initiatives the Department is reviewing. As state and local officials continue to refine the review process for school construction, the focus must remain on providing a quality education for Indiana students. Schools must be able to provide a safe, clean, and comfortable environment that is conducive to learning. The improved review process must ensure that priority is met while at the same time ensuring schools are not palatial or centered on non-academic space.



Indiana School Construction in 2005

Governor Mitchell E. Daniels, Jr.

Total Approved

\$ 1.3 billion

Total in 2004

\$618 million

New Review Guidance Issued

May 2006

Potential Dollars Saved Under New Guidance

\$18.25 million in principal &

\$71.1 million in interest

Cost of New construction vs. National Average

.75% more per square foot

Cost of 2005 New Construction vs. 2004 Costs

1.6% more per square foot

Size of New Construction vs. National Average

39.3% larger

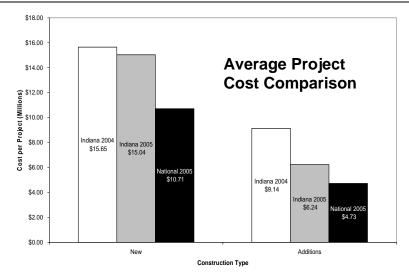
Size of 2005 New Construction vs. 2004 in Indiana

5.7% smaller

Overview

New review guidelines implemented as part of Governor Mitch Daniels effort to curb non-classroom spending made progress in reducing the price of Indiana school construction in 2005.

The cost of school construction projects in the state decreased in 2005; however, much work lies ahead for state and school



officials. The cost for new school construction in Indiana was more than 40 percent higher than the national average in 2005, and new Indiana school construction projects were nearly 40 percent larger than the national average.

Findings

The Indiana Department of Local Government Finance approved \$1.3 billion in school construction in 2005. The 2005 total represented a \$682 million growth in school construction from the 2004 total of \$618 million.

Following Governor Daniels' moratorium on school construction in early 2005, the Department developed cost per square foot thresholds based on national construction costs averages to use as benchmarks in reviewing school construction projects. Application of these thresholds and increased scrutiny of projects saved Indiana taxpayers saved Indiana taxpayers an estimated \$90 million – \$18.25 million in principal and \$71.1 million in interest through Department-requested modifications to school projects.

The introduction of cost per square foot thresholds in 2005 was a step forward in improving the review process of school construction projects. Cost per project decreased in most school construction categories in 2005, but the price tag and size of new Indiana school construction projects continues to be greater than similar projects across the nation.

Effect on Hoosier Taxpayers

Nearly 11 cents of every property tax dollar collected in Indiana paid for school construction debt in 2005. Payments on construction debt consumed more than \$777 million in property tax revenue in 2005. School construction debt consumes more property tax revenue than all libraries and townships combined.

